SGGF II

Saskatchewan Government Growth Fund II Ltd.

Creating economic wealth and diversification
through investment of immigrant investor capital in Saskatchewan

2006 FINANCIAL STATEMENTS

SASKATCHEWAN GOVERNMENT
GROWTH FUND

To the Shareholder of Saskatchewan Government Growth Fund II Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund II Ltd. as at December 31, 2006, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

Saskatchewan Government Growth Fund II Ltd.
Statement of Financial Position

December 31	2006	2005 (restated – Note 3)
Assets		
Cash	**$ 79,068**	$ 76,897
Other investments (Note 4)	**-**	27,368
	$ 79,068	$ 104,265
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities	**$ 13,358**	$ 18,890
Commissions payable (Note 5)	**24,500**	24,500
Obligations to investors (Note 6)	**7,871,930**	7,871,930
	7,909,788	7,915,320
Share capital (Note 7)	**1,000**	1,000
Deficit	**(7,831,720)**	(7,812,055)
	(7,830,720)	(7,811,055)
	$ 79,068	$ 104,265

See accompanying notes to the financial statements.

On behalf of the Board:

Roland Hardy
Director

Lloyd Boutilier
Director

Saskatchewan Government Growth Fund II Ltd.
Statement of Operations and Deficit

Year ended December 31	2006	2005 (restated – Note 3)
Revenues		
Income from cash and publicly-traded and short-term investments	**$ 3,405**	$ 16,370
Income from other investments	**-**	74,221
	3,405	90,591
Losses realized on disposal of other investments	**(14,738)**	(537,766)
Increase in fair value of investments	**-**	585,690
	(14,738)	47,924
Net revenue	**(11,333)**	138,515
Expenses		
Administration (Note 9)	**8,332**	37,986
Interest on note payable	**-**	12,107
	8,332	50,093
Net (loss) income for the year	**(19,665)**	88,422
Deficit, beginning of year, as previously reported	**(8,583,370)**	(8,481,349)
Accounting change (Note 3)	**771,315**	580,872
Deficit, beginning of year, as restated	**(7,812,055)**	(7,900,477)
Deficit, end of year	**$ (7,831,720)**	$ (7,812,055)

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund II Ltd.
Statement of Cash Flows

Year ended December 31	2006	2005 (restated – Note 3)
Cash flows from operating activities		
Net (loss) income for the year	**$ (19,665)**	$ 88,422
Items not affecting cash:		
Increase in fair value of investments	**-**	(585,690)
Net losses realized on disposal of other investments	**14,738**	537,766
Net change in non-cash balances related to operations (Note 10)	**(5,532)**	258,981
Cash flows from operating activities	**(10,459)**	299,479
Cash flows from investing activities		
Disbursements on investments	**(9,553)**	(87)
Repayments of investments	**22,183**	2,053,440
Cash flows from investing activities	**12,630**	2,053,353
Cash flows from financing activities		
Repayment of obligations to investors	**-**	(1,114,805)
Repayment of note payable	**-**	(1,182,972)
Cash flows from financing activities	**-**	(2,297,777)
Net increase in cash	**2,171**	55,055
Cash, beginning of year	**76,897**	21,842
Cash, end of year	**$ 79,068**	$ 76,897
Interest paid during the year	**-**	$ 481,645

See accompanying notes to the financial statements.

1. Status of the Corporation

Saskatchewan Government Growth Fund II Ltd. ("SGGF II" or the "Fund") was incorporated in March 1993 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, the Fund was established to raise $35,000,000 through a bond offering. Each bond is a 2% unsecured, subordinated bond with a principal amount of $250,000 ("Bonds"). The marketing period for the Fund closed on May 28, 1995.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions which qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

The Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of the Fund or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Bonds.

The Fund's only source of revenue is from its investments. The Fund has liquidated all of its investments. There were insufficient proceeds on liquidation to satisfy all of the Fund's obligations.

2. Significant accounting policies

The financial statements have been prepared on a liquidation basis of accounting in accordance with Canadian generally accepted accounting principles whereby assets are carried at their estimated net realizable value, which at December 31, 2006 approximates fair value. The following accounting policies are considered significant:

Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and adjustments are reported in the Statement of Operations and Deficit in the period in which they become known. The primary measurement uncertainty which may affect the reported amounts relates to the determination of fair values of other investments as described on the following page.

Other investments

Other investments include debt and equity investments in private companies. Other investments are carried at fair value. Income from debt investments ("loans") is recognized as earned except if the investment is impaired. A loan is considered to be impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired are the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. Income from equity investments is recognized when received. The change in fair value of other investments during the year is included in the Statement of Operations and Deficit.

Fair values for other debt investments are determined by calculating the present value of the remaining payments under the loans. The discount rate used is based on the expected return at the date of the financial statements for a loan to an investee with similar risk characteristics. The discount rate is comprised of a base risk-free rate based on a Government of Canada bond with equivalent duration, a credit risk premium based on publicly-traded debt with a BBB credit rating, and an additional credit risk and liquidity premium based on the circumstances of the specific investee.

Fair values for other equity investments are determined by management on the basis of the expected realizable value of the investments as at the date of the financial statements if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is appropriate at the date of the financial statements to investments in similar companies. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

3. Accounting change

During 2006, the Fund determined that interest should not be accrued on obligations to investors after the maturity date. Accordingly the financial statements for 2005 and prior years have been restated to reverse the interest that had been accrued on matured Notes and restate the obligations to investors. As a result, liabilities and deficit both decreased by $771,315 at December 31, 2005 and by $580,872 at December 31, 2004. Interest expense for 2005 decreased by $190,443.

4. Other investments

	2006	2005
Debt instruments	$ -	$ 27,368
Adjustment to fair value	-	-
Carrying value	$ -	$ 27,368

In 2005, included in debt instruments was $27,368 of impaired investments upon which income is not accrued. During the year, $14,738 (2005 - $537,766) of investments and costs have been written off.

During the year, investments decreased as follows:

	2006	2005
Balance, beginning of year	$ 27,368	$ 2,032,797
New investments	9,553	87
Book value of divestments	(22,183)	(2,053,440)
Investments and costs written off	(14,738)	(537,766)
Net change in fair value	-	585,690
Balance, end of year	$ -	$ 27,368

5. Commissions payable

According to the terms of marketing agreements entered into by the Fund, a commission is payable to the independent marketing agent selling the Bonds upon issuance of the investor's immigrant visa.

6. Obligations to investors

Obligations to investors represent the Bonds issued to investors of the Fund. The Bonds help to satisfy a portion of investors' visa requirements under the IIP. Interest to the maturity date of Bonds is accrued at an annual rate of 2% from the date of Bond issuance. The obligation at December 31 is:

	2006	2005 (restated – Note 3)
43 Bonds	$ 7,871,930	$ 7,871,930

The obligation is comprised of 31 unsecured subordinated Bonds with a remaining principal balance ranging from $210,462 to $216,832 and 12 Bonds with a remaining principal balance ranging from $102,555 to $103,907.

Obligations under the Bonds are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities.

Liquidity problems experienced in the investment portfolio during the year 2000 forced the Fund to reduce repayments on Bonds that matured between September and November 2000, and to suspend repayments on Bonds that matured after November 2000. In September 2005, a payment of $47,250 was made to the holders of the 31 Bonds on which payments had been suspended.

The Fund has a significant deficit and no resources from which to make any further principal payments on the outstanding Bonds.

7. Share capital

The authorized common share capital of the Fund at December 31 is:

Class A common shares – an unlimited number of voting common shares. Holders of these shares are not entitled to receive dividends.

Class B common shares - an unlimited number of non-voting common shares. Holders of these common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

	2006	2005
1,000 Class A common shares	**$ 1,000**	$ 1,000

8. Risk management

The Fund's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors may impact upon the Fund's ability to repay its Bonds at maturity.

Market risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which the Fund invests are dependent upon a single product or industry. The Fund manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

Credit risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that the Fund restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. In addition, changes in commodity prices and foreign currency exchange rates may significantly affect the financial position of some investees. The Fund conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis.

Interest rate risk

Interest rate risk is the risk that the Fund's earnings will be affected by fluctuations in interest rates. The Fund manages this risk through carefully monitoring and matching the duration of its investments with the duration of its obligations to investors.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in liquidating its investments at the time it is required to repay its Bonds. Due to the nature of some of the Fund's

investments, the timing of cash flows from its investments may not exactly match the payments owing under the Fund's Bonds. The Fund carefully monitors the duration of its investments. However, timing differences may require the Fund to reduce or delay the payments owing on Bonds at maturity.

Fair value – obligations to investors

No secondary market for the Bonds exists. Due to the unique features associated with the Bonds, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of obligations to investors. Repayment of these obligations at maturity is dependent upon the value and liquidity of investments at that time.

9. Administration

Under the terms of a management agreement between the Fund and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of the Fund with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of the Fund. All services provided to the Fund are charged on a fee for service basis. The costs billed to the Fund by SGGF Management Corporation are as follows:

	2006	2005
Manager's fees	**$ -**	$ 24,177
General administration	**-**	1,451
Directors' fees and expenses	**1,679**	4,854
Legal and professional	**6,653**	7,504
	$ 8,332	$ 37,986

10. Net change in non-cash balances related to operations

	2006	2005 (restated – Note 3)
Accounts receivable and accrued income	**$ -**	$ 771,895
Accounts payable and accrued liabilities	**(5,532)**	(162,969)
Accrued interest payable to investors	**-**	(349,945)
	$ (5,532)	$ 258,981

11. Income taxes

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of the Fund. Therefore, the Fund is exempt from income taxes.

12. Related party transactions

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in Note 9. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Total fees charged to the Fund by SGGF Management Corporation amounted to $8,332 (2005 - $37,986). Total fees payable to SGGF Management Corporation at December 31, 2006, and included in the above, are $3,358 (2005 - $3,851).

The Fund had issued notes payable to Saskatchewan Government Growth Fund Ltd. ("SGGF Ltd."), a wholly-owned subsidiary of SGGF Management Corporation, and to SGGF Management Corporation. Total interest charged by SGGF Ltd. in 2005 was $12,037. Total interest charged by SGGF Management Corporation in 2005 was $71.

13. Contingencies

The Fund indemnifies contracted parties in connection with services provided. From time to time the Fund or such parties may be defendants in litigation. It is not possible to predict the ultimate outcome of any outstanding litigation or estimate any costs which might result.